August 1991 Monthly Survey

September 6, 1991

Surveys of Consumers

Richard T. Curtin, *Director*

CONSUMER SPENDING REMAINS ON SLOW GROWTH TRACK

Sentiment Stalled

The overall level of consumer sentiment has remained virtually unchanged during the past five months. The Index of Consumer Sentiment was 82.0 in the August 1991 survey, an insignificant difference from either the 82.9 recorded in July or the 81.8 recorded in April.

Little has happened to convince consumers to change their views in either direction. At present, consumers expect a sluggish recovery in the national economy during the year ahead, and a slow pace of improvement in their own financial situation. Overall, the data indicate that the slow rebound in consumer spending that is now underway will continue through the year ahead.

Among families with incomes of $40,000 or more, the Index of Consumer Sentiment slipped to 89.6 in the August 1991 survey, from 91.5 in July and 91.0 in April. Trends in sentiment among different age subgroups also showed a similar flat profile since April.

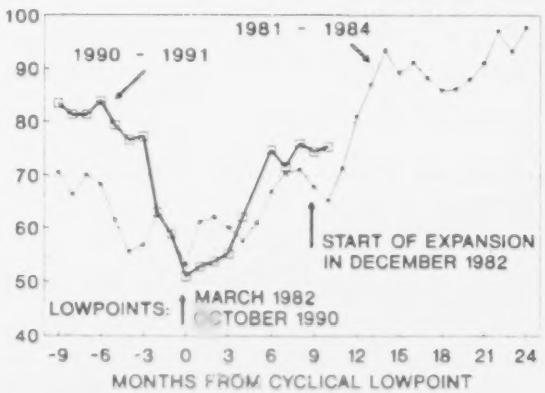
Expectations Index Unchanged

The Index of Consumer Expectations, a component of the Index of Leading Indicators, was 75.3 in the August survey, insignificantly different from either the 74.4 recorded in July or the 74.7 recorded in April. Following substantial gains earlier in the year, the Expectations Index has remained largely unchanged during the past five months.

As shown in the chart below, the recent changes in the Expectations Index are comparable to those recorded prior to the last recovery--including the stalled upward trend. Approximately half of the total gain was made during the nine months prior to the start of the last recovery, with the Index remaining relatively flat in the few months just prior to and after the start of the recovery. Once the recovery was underway, the gains in the Expectations Index were rapid. (Note that the March 1991 figure, distorted by the euphoria at the end of the Persian Gulf war, was omitted from the chart.)

The pause in the upward trend in the index reflects the lag between the initial improvement in expectations and their subsequent confirmation by actual improvements in the economy. As the economy begins to improve, it acts to reinforce the already improved expectations and quicken the pace of improvement. It is this second stage of improvement that has yet to occur.

CYCLICAL TRENDS IN THE INDEX OF CONSUMER EXPECTATIONS



Surveys of Consumers • P.O. Box 1248 • Ann Arbor, Michigan 48106-1248 • (313) 763-5224 • FAX (313) 764-3488

Confidence Remains Weakest in Northeast

Consumer confidence among residents of the Northeast slipped in the August survey (to 71.1, from 79.6 in July) while confidence among residents of the Western states rose (to 86.4, from 82.8 in July). Confidence remained unchanged in the other regions: among residents of the Midwest, the Index was 83.4 in August, just below the 83.7 in July; among residents of the South, the Index was 85.1 in August, just above the 84.8 in July.

Sluggish Pace of Recovery Expected to Persist

The number of consumers that have reported improved conditions in the nation's economy has grown at a slow, steady pace since the start of 1991. To be sure, the majority of consumers in the August 1991 survey thought that the economy was still in recession, but the margin of opinion has narrowed greatly. In the January 1991 survey, ten times as many consumers thought the economy had worsened rather than improved (81 versus 8 percent), while by August that negative balance of opinion had been reduced to two-to-one (59 versus 29 percent).

Rather than an acceleration in the pace of recovery in the coming months, most consumers expect the same sluggish pace to continue during the year ahead. Worsening conditions in the national economy were expected by just 13 percent of all families in the August 1991 survey, down from the recent peak of 43 percent recorded last October. At the same time, the proportion that expected gains in the economy grew to 32 percent by August from a low of just 11 percent last September. Most of this improvement, however, was recorded by April, and since then these expectations have remained largely unchanged.

The recognition that economic growth would remain slow has led as many consumers to believe that bad times in the economy would linger as expected the reestablishment of good times during the year ahead. In the August 1991 survey, 42 percent expected that bad times financially would persist during the year ahead, compared with 36 percent that expected good times financially in the economy as a whole. While these prospects have shown little improvement during the past four months, indicating the lingering concerns of consumers, they are nonetheless much more positive than in late 1990 when nearly three-in-four consumers expected bad times.

Lack of Job Growth Top Concern about Sluggish Economy

The outlook for continued sluggish growth in the economy concerns consumers mainly because of its impact on job prospects. The most common expectation in the August 1991 survey was that the unemployment rate would remain unchanged during the year ahead at its current level. Very few consumers (13 percent) expected the national unemployment rate to decline in August.

Interest Rate Concerns Lessen

Concerns about rising interest rates eased in August, although consumers still expected interest rates to be higher in a year's time than at present. Declines in interest rates during the year ahead were expected by 27 percent of all families in August, up from 21 percent in July, while the proportion that expected interest rates to increase fell to 38 percent in August from 43 percent in July.

Expected Inflation Rate Remains At Low Level

The annual rate of inflation expected by consumers in the August 1991 survey was 4.3%, down from 6.1% in August 1990. Except for the unusually low reading of 3.8% recorded in July, the August 1991 reading remained the lowest in more than three years.

Personal Finances

Consumers' assessments of their current financial

situation have remained unchanged for the past three months at depressed levels. Among all families, 37 percent reported that their financial situation had improved, just ahead of the 36 percent recorded both one month and three months earlier. Nearly as many families reported that their financial situation had worsened, mentioned by 33 percent of all families in August 1991, unchanged from July, and just below the 34 percent recorded in May. Reports of income declines remained widespread, mentioned by 24 percent of all families in August--the highest level recorded since the end of the last recession.

For the year ahead, 37 percent of all families in the August survey expected their financial situation to improve, up from 33 percent one month earlier, regaining the level recorded in May. Although the recent readings are significantly above the cyclical low recorded last October, much of the improvement was based on expected declines in the rate of inflation rather than from improved income prospects. Increases in household incomes were expected by 56 percent of all families in the August 1991 survey, with half of those families expecting increases of 5% or less. Nearly half of all families expected their financial situation to remain largely the same during the year ahead, considering changes in both incomes and prices.

Buying Attitudes

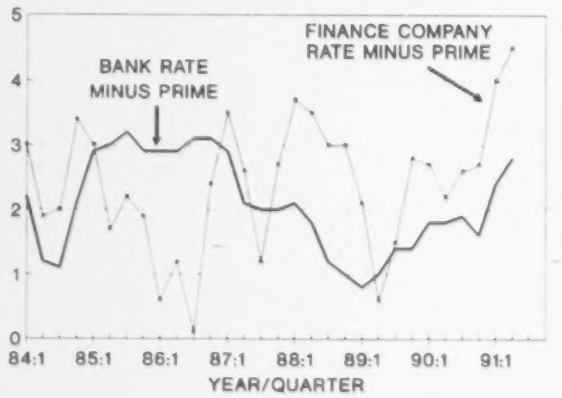
Attitudes toward buying conditions for large household durables weakened in the August survey due to less favorable perceptions of market prices. Among all families, 63 percent thought that buying conditions for furniture, appliances, home electronics, and other large household durables were favorable in the August survey, down from 68 percent one month earlier. The August decline was due to fewer families reporting the availability of price discounts, falling to 35 percent from 42 percent one month earlier. At the same time, complaints about high prices for these household durables rose to 12 percent in August, twice the 6 percent recorded in July.

Attitudes toward buying conditions for homes has remained largely unchanged during the past four months at the greatly improved level reached earlier in the year. In the August 1991 survey, 72 percent of all families rated current buying conditions favorably, significantly above the low of 50 percent recorded in October of 1990.

The sharp improvement in home buying attitudes in early 1991 was due to falling mortgage interest rates, and it has been the lack of further declines in mortgage rates that has been responsible for the stalled trend. Among all families in the August 1991 survey, 39 percent based their favorable home buying opinions on lower mortgage rates, unchanged from one and two months earlier, and below the 43 percent recorded in March and April. In addition, the proportion of families that mentioned lower home prices fell to 42 percent in August, from 45 percent one month earlier and the peak of 49 percent three months earlier.

Vehicle sales have suffered from persistently high interest rates. As overall market rates have declined during the past year, vehicle loan rates have remained stubbornly high. The increasing spread between the prime rate and vehicle loan rates at commercial banks and finance companies is shown in the chart below. For finance companies, the spread is the highest in a decade.

DIFFERENCE BETWEEN PRIME RATE AND NEW CAR LOAN RATES



* * *

The August 1991 survey included 500 completed interviews conducted between August 1st and August 28, 1991.